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BACKGROUNDER: ELECTRICITY GENERATION

Report Highlights

- End Ontario Hydro's monopoly in electricity generation.
- Allow all electricity generators -- including out-of-province suppliers -- to compete on equal terms for Ontario business.
- Operate Ontario Hydro's nuclear generation as four separate competing entities -- and keep them in public ownership.
- Create competing generation companies from hydroelectric and fossil fuel facilities. Introduce private equity for all but the heritage facilities on the Niagara River.

Existing System

Ontario Hydro controls more than 90 per cent of Ontario's electricity generation capacity, as well as owning and operating the transmission system. There is no effective regulation of Ontario Hydro.

As a publicly-owned corporation, Ontario Hydro pays no income or corporate taxes, and its debt is backed by the Provincial Government. It pays grants in lieu of municipal taxes, a debt guarantee fee to the Province and water rental levies.

Reasons for Change

For many years, Ontario's electricity generation was planned centrally and large generating stations were needed to meet a growing demand for power. Decentralized, smaller-scale plants are attractive options to meet new supply needs, so the capital resources of a large monopoly are no longer needed.

Competition in generation would improve efficiency and allow long-term capital planning to be led by market forces.

To introduce competition in electricity generation, Ontario Hydro's generation and transmission activities would be separated. Existing generation assets would be divided into a number of publicly-owned companies with a mandate to compete in a commercial manner. The companies should be created under corporate legislation, the Ontario *Business Corporations Act (OBCA)*.

Nuclear generation assets would become one publicly-owned company, with four competing entities -- Pickering (A and B); Darlington; Bruce A; and Bruce B. The single owner would allow operating synergies to continue; the four operating entities would allow competition.



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Private ownership of nuclear assets is not being recommended at this time, but it may be feasible if commercial and public concerns about the risks associated with nuclear generation are resolved.

Another publicly-owned company would be created consisting of the hydroelectric assets on the Niagara River. This acknowledges the strong public sentiment attached to this heritage resource.

Additional competing generation companies would be established from Ontario Hydro's other hydroelectric and fossil fuel facilities. Private equity should be introduced into these companies to promote greater benefits from competition.

Public and private generators would compete on equal terms -- for example, publicly-owned generators would pay full taxes and pay grants to the Government in lieu of dividends.

The new competitive generation system must have enough suppliers and appropriate regulation to avoid anti-competitive behaviour.

Ontario will still have generators large enough to compete in other jurisdictions. Generators outside of Ontario will also provide a source of competition in the Ontario market.